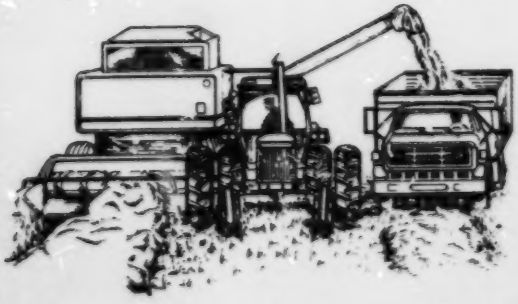
Saskatchewan Agriculture

Economics Branch

Farm Management



Designing Your Own Farm Accounting System Revised 1987

Foreword

Adequate farm records are becoming an increasingly important management tool. As farm size increases both production management and tax management become more important. Setting up an accounting system is a step towards compiling farm information in a form you can use to file income tax, complete loan applications, and analyze your operation.

This publication is designed to help farmers set up an accounting system for their specific operation. The first step is to determine who will ultimately use the information (ie. Revenue Canada, the farm manager), and set up the system so it provides that information. A filing system should be set up so it results in easy retrieval of information from the system. Two methods of recording income and expenses discussed are the single entry system and the modified double entry system. You must decide which of these two methods to use. All other sections of the account book are the same regardless of whether you use the single or modified double entry system of recording income and expenses.

This publication was prepared by Martin Ferguson. The assistance of many resource people and reviewers is gratefully acknowledged.

This publication is based on tax laws in effect at the time of printing. Any tax changes after the date of printing may affect the contents of this publication. Readers are cautioned to check with Revenue Canada about specific concerns.

For further information or additional copies of this booklet, contact your agricultural representative, regional farm management specialist or the Farm Management Section, Saskatchewan Agriculture, 329 Walter Scott Building, Regina, Saskatchewan S4S 0B1.

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Accounting Defined

Accounting has been defined as the art of recording, classifying, and summarizing transactions and events in terms of money and interpreting the results thereof.

Accounting is not an end in itself; it is a useful tool. It is a language for communicating the financial facts about an enterprise or activity to those who have an interest in interpreting those facts. When designing an accounting system, first determine who will be the ultimate users of the information and set up your system accordingly.

Uses of Farm Records

One of your major responsibilities as a farm manager is making decisions. You must evaluate the past performance of your farm and based on your overall goals, make decisions about the future. One of the basic tools for farm decision making is a good set of farm records. They provide you with the means to assess past performance and identify the business problems which you must correct if you are to improve the financial performance of the business.

You can use your records to:

1. Analyze the Farm Business

Most management decisions are easier to make if you have accurate financial and physical information. Good records enable you to accurately assess the costs and returns for the total farm, and for indivi lual enterprises. Records help you identify the strong and weak areas in your operation and these are the first steps in improving your operation.

2. Plan for the Future

Predictions and budgets for the future are much more reliable if based on accurate records of your farm's past results.

3. Complete Income Tax Returns

The Income Tax Act requires that you keep business records and all supporting documents necessary to verify the information contained therein. Effective September 20, 1982 you must keep records and vouchers for six years after the end of the year for which the records pertain. If you filed a tax return late, you must keep the records and vouchers for six years from the date of filing the late return. You should keep records of capital purchases (land, buildings, machinery) as long as you own the items. Business records must be in such a form and contain the information necessary to determine income tax payable.

If you don't have an adeqate record system you may be paying more income tax than necessary. Any expense items that are lost or forgotten will result in additional income tax. Since the last dollar of tax will be paid at the highest marginal rate, it is even more important to obtain a written bill for all business purchases and to ensure that expenses are properly recorded.

4. Obtain Credit

Records provide valuable information for determining the soundness of a loan and for obtaining credit because they show past progress and indicate what security is available. Records help determine how much money you can borrow and repay safely.

Imagine you were lending a large amount of money to a farmer. You would need financial information before you could decide whether or not to make the loan. The better the borrower's records, the more sure you would be since you would have a better financial picture of the farm. If you as a lender have a good financial picture of the business and its repayment ability, you may be able to lend more than if you don't understand the business.

A good record system is one way to convince a lender and yourself that your plan is sound and your business is a good risk.

5. Make Business Arrangements

Business arrangements take many forms:

- You may share a mixmill or rock picker with your neighbours. Where assets are purchased jointly, keep records to indicate each person's share of each asset.
- Two brothers may have a Machinery Sharing Agreement whereby each owns individual machines but work together and share investment costs and operating costs such as fuel and repairs.
- A father and son may share all income and expenses from one unit.

Records help evaluate the fairness of operating arrangements and also serve as a basis for settlement. The more complicated the business arrangement, the more detailed the records must be.

6. Settle Estates

When you die, all your assets except those rolled to your spouse or, in certain situations, your child

are considered to be sold. This may result in a large amount of income tax payable after all inventories, capital gains and recaptured capital allowances on machinery and buildings have been considered. A good set of records will be a great help to the executor of your estate. A good record system combined with an "Estate Plan" will fulfill your objective while keeping taxes to a minimum.

7. Determine Employee Deductions

It is a legal requirement that you keep records of employee deductions. You must deduct income tax, Canada Pension Plan and Unemployment Insurance from employees' wages and forward these to Revenue Canada by the 15th day of the following month.

8. Record Production

A record of yields of different crops over several years is useful in budgeting and in determining what crops to grow. By keeping track of different farm practices and the resulting yields, you can use those practices which result in higher net returns.

The ability of farm records to meet all of the listed uses will largely depend on their accuracy and completeness.

Proper Banking Procedures

1. Type of Bank Account

The type of bank account you choose should provide the following services:
a) provide monthly statements;
b) return your cancelled cheques;
c) provide a duplicate deposit book;
d) provide a cheque book which has:
   (i) prenumbered cheques
   (ii) cheque stubs or cheque register on which to write down all important details
e) have a minimal or no charge per cheque.

2. Number of Bank Accounts

Although it is not always practical to set up separate accounts, they do help improve record accuracy. Advantages are:
- Keeping two bank accounts completely separates your farm business transactions from your personal financial affairs. Your farm bank account provides a complete record of farm business transactions while your personal account shows a true picture of personal income and expenditures.

- Keeping a personal bank account makes personal budgeting easier because you set aside a given amount of money each month for your expenditures. Thus, your family knows how much to keep from farm income for personal expenditures each month. Budgeting decisions to determine the best way to spend this money can then be made.

The main disadvantage to two bank accounts is the added complexity since two cheque books must be carried instead of one. Bank accounts may need to be juggled at times to make sure there is enough money in each account. (Developing a system for budgeting and transferring money may eliminate this.)

Besides a chequing and personal account, establish a savings account. Keep excess cash in it or in bank term deposits to earn interest. Some banks have combination chequing and savings accounts which pay interest like a savings account depending on the account balance. This type of account eliminates the need for a savings account.

3. Why Use the Bank?

The ultimate goal is to write cheques for all expenses and deposit all Income intact into the bank account. If this is done, the monthly bank statement will provide you with a complete record of all your transactions. Writing cheques for all farm expenses reduces the need for carrying large amounts of cash. Using cheques increases the accuracy of farm bookkeeping since two documents results from each transaction. If you write cheques for all expenses, you can record farm transactions from a well kept cheque register.

4. Handling Expenses

Write cheques for all expenses. When possible, write your cheques at home when you receive the statement or bill to help keep all records together.

Example of a cheque written to pay for a farm expense:

NATIONAL BANK #527
Joe Farmer Box 215
Any Where, Sask
PH: 696-2428 Date March 20, 1986

Pay to Fred's Fertilizer $1360.00

One Thousand Three Hundred Sixty --- xx Dollars
100

4 tonnes 11-51-0 Fertilizer
Invoice #2531 Joe Farmer

Carry your cheque book to pay for items which must be paid for at the time of purchase.

Fill out the cheque stub for every cheque with: date, amount, what the cheque is for, who the cheque is to, and the invoice number. Write cheque numbers on the bill or invoice for which payment is being made.

If cheque stubs or register are properly filled out, the cheque book will provide a complete record of your cheque written to pay for a farm expense.

Example of a cheque register

Cheque Register

Date	Cheque No.	Description	Amount
May 10	527	Fred's Fertilizer Inv #2531 4 tonnes 11-51-0	$1,360.00
May 15	528	General Store Inv #7351 20 ft #50 Chain (20.00) and 44l gasoline (20.00)	40.00
May 22	529	Sask. Pool Inv # 35165 3 pails Bucktril M	489.00
May 28	530	Cash at Bank	100.00
May 29	531	Ed's Esso Inv #3417 1200 1 diesel	420.00
May 30	532	General Store Inv #8125 1 block cattle salt	4.00

5. Handling Receipts

Deposit in the bank the total amount of all receipts that you receive, both cash receipts and cheques. Don't cash cheques at stores, garages, etc.

Use a duplicate deposit book which will then give a record of all money received.

Record each cheque separately on the deposit slip and note what it is for.

When depositing a cheque, don't use the less currency section on the deposit slip. Write a separate cheque for CASH to withdraw currency.

Cross reference relevant documents to the deposit slip.

If the deposit book is properly filled out you will have a complete record of all your receipts.

Example of entering income in a duplicate deposit book:

National Bank

Joe Farmer

Name	Amount
Sask. Pool #65165 wheat	2,500.00
Bill Brown 4 cows	2,000.00
Total Cheques (Carry Forward)	4,500.00

Current Account

Acct. No. 00000

Name Joe Farmer

X	1	
X	2	
X	5	
1 X	10	10.00
2 X	20	40.00
X	50	
X	100	
	Coin	
Total Cash		50.00
Total Cheques		4,500.00
Sub Total		4,550.00
Less Exchange		----------
Total		4,550.00
Deposited by		Joe Farmer

6. Reconciling the Bank Statement

a) Checking the Bank Statement

The bank statement you receive will:
- indicate the cheques which have been deducted from your bank account along with the cancelled cheques.
- give the time period covered by the statement
- show the opening balance which is the same as the final balance on the previous statement
- record all the deposits made.
- show withdrawals for which cheques were not written. Pay careful attention to this.

Procedures for checking bank statement:

i) Compare cancelled cheques with withdrawals shown on the statement.

ii) Circle in colored pencil the withdrawals which don't correspond to cancelled cheques, such as service charges, loan payments and debits by the bank. Make sure you understand what these are for.

iii) Put cheques in cheque number order and list numbers missing which have not been received and handled by the bank. (This will be required later to assist in comparing the farm records with the bank statement.)

iv) Compare your deposit book with the amount recorded as deposits on the bank statement. Note the reason for any differences between the two. If there is anything you can't account for on your bank statement, check with your banker.

v) File bank statement and cancelled cheques in the appropriate place. Do not mix statements and cancelled cheques from different bank accounts.

b) Comparing Bank Statement Balance to the Cheque Register Balance.

For you to keep accurate control over your cash position, you must maintain an up to date record of your bank balance based on cheques written and deposits made. Because the bank needs time to process cheques and deposits, the bank statement is not as up to date as your own record of cheques and deposits made. To ensure that the two are in agreement and to act as a check on the accuracy of both, reconcile the bank statement to your records.

To reconcile the two statements:

i) Determine the ending balance on the bank statement.

ii) Deduct cheques which have been written but not processed by the bank yet.

iii) Add deposits which have been deposited but not recorded on the bank statement yet.

iv) This will give you the adjusted bank balance.

v) Determine the bank balance according to your own records (cheque register)

vi) Deduct from this any debits the bank has made from your account such as service charges.

vii) Add any credits the bank has made to the account ie. interest etc.

viii) This will give you your adjusted cheque register balance which should agree with adjusted bank balance calculated in step (iv). If these two balances do not agree, then it means that either the bank statement or, more likely, your own records are in error. Both must be closely examined to determine where the error is.

ix) Remember to adjust your own records by steps (vi) and (vii) to maintain their accuracy.

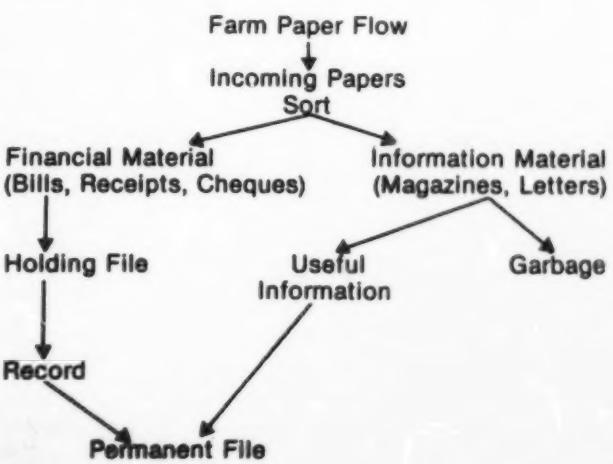
7. Monitoring Your Operating Loan

Most banks provide a service of transferring money into your current account from a preauthorized line of credit or operating loan. Maintaining financial control is difficult under these circumstances. Some banks will provide a monthly operating loan statement which indicates increases or decreases in your operating loan. The operating loan statement should be checked against your current account statement. Without a monthly operating loan statement, it is difficult to monitor an operating loan and do a complete check on your current account bank statement.

Handling the Paper Flow

There are basically four steps involved in handling the flow of paper on the farm.

a) sorting material
b) holding material prior to recording and filing
c) recording into a record keeping system
d) filing material



1. Materials and Equipment

To make the accounting process more efficient, set aside an area where you can keep all materials for farm accounting. A special room or office is the ideal situation where you can spread out records and invoices and don't have to gather them up at meal time as you do if you use the kitchen table.

A few supplies will help make work more efficient and ensure easy retrieval of records.

a) Temporary file
You can use a large envelope, a pouch calendar, a desk drawer, or a box to act as a temporary file for all bits of paper relating to the farm business.

b) Record book
You will need a record book in which to enter all of the farm income and expenses. There are several record books that can be purchased or you can buy a ledger book (available with up to 36 columns)

c) Permanent file
A filing cabinet with large envelopes, an expandable file folder, a cardboard box with large envelopes, or a shannon file may be used for a permanent file. Envelopes are preferable to file folders to prevent papers from falling out of the folders.

You should have at least one envelope for each section of the account book. For some sections, such as expenses, you may want an envelope for each month to provide easier retrieval of invoices. For some sections where there are not as many items (ie. income) you may have an envelope for each quarter or three months.

d) Waste paper basket

e) Cheque book

f) Duplicate receipt book

g) Calculator

h) Stapler

i) Writing pads, stamps and envelopes

2. Sorting Material

Sort financial documents, bills, cheques, receipts, and bank statements from non-financial business papers. Immediately discard informational material that is of no use and set aside information for future use for filing in an informational file. You can begin sorting at the post office. Separate the important letters containing invoices, bills, income

and bank statements from all other material to ensure that these important documents are not lost. If not separated a bill or cheque may fall down behind the truck seat or may become lodged in a flyer and thrown out by mistake.

3. Holding Business Documents Prior to Recording

The purpose of a holding file is to temporarily hold the business documents in one place until you are ready to record them. You are less likely to lose business papers if you keep them in one place.

The type of holding file you use will depend on how often you record the material and transfer it to your permanent file.

a) Regular Recording
If you do your records daily, weekly or monthly, your holding file need not be elaborate, since the pile of business papers never gets too large prior to filing.

Some examples of possible holding files are:
i) Stick files - simply stick bills or receipts onto the nail each evening after the day's business is completed.

The documents will be in order of date and ready to record. Write any additional information that you need to keep on the document at the time of recording while it is fresh in your mind. This may be information on what the bill or cancelled cheque was for, whether the bill was paid by cheque or cash, quantities, grades, or any other particulars. Use more than one stick if you want to keep some transactions separate from others.

ii) Expandable file - use one or two of the front pockets of the file for holding business papers prior to recording in the record book. The back pockets can be used for permanent files.

iii) Desk drawer - set aside one drawer of a desk to be used as the holding file.

The main points to remember about a holding file are:
- keep all bills and receipts in one place
- make sure all members involved in the farm operation know the location of the file.
- write any information on the bills and receipts which will be required at the time of recording. A description of a repair will be more useful than a part number when you are recording.

b) Irregular Recording
If you record several months' data at one time, you need a more sophisticated holding file. A lot more paper accumulates over a longer period so you must keep the holding file well-organized to avoid problems at recording time.

Break the holding file down into sections or categories since a large stack of bills is easier to record if they have been placed in files titled to match headings in the account book.

Examples of Headings for an Irregular Recording Holding File

Expenses	Capital Purchases + Sales
Income	Personal expenses
Wages	Non-Farm Income
Bank	

Another method of holding unentered documents is to file each month's documents separately. Either an expandable file with pockets or a series of large envelopes will provide a suitable holding file.

4. Recording

Recording is the act of listing farm transactions in some specific order. The purpose of listing transactions is to arrive at expense totals for items like total machinery repair, total fuel costs and income totals. Ultimately all income and expenses are totaled for one year and the difference between the total income and the total expenses is calculated. The figure is termed net cash income and it is the basis for filing income tax.

When you record and total transactions often, you develop a feel for where the farm business is, financially. You can spot cash flow problems quickly as well as receive advance warning of what your taxable income will be, enabling you to make adjustments if required.

a) Sources for Recording
There are two sources for recording in your record system.

i) You can record directly from the cheque register (if all your expenses are paid for by cheque) and your deposit book.

If you use this method compare the cancelled cheques with the original bill to ensure that all bills have been paid and to uncover possible cash transactions not recorded in the cheque register.

ii) You can record directly from the original bill or receipt document directly out of the holding file.

b) Farm Record Systems Available

i) Record Books
A variety of record books are available. Most provincial departments of agriculture have developed

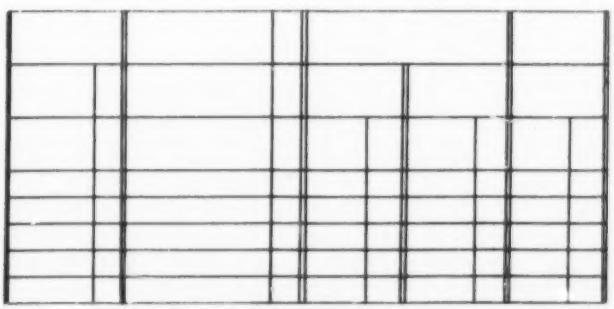
farm account books.Account books are set up to determine net cash income for filing an income tax return. When you use an account book you are less likely to forget to transfer an income or expense item forward to the summary than when you use a ledger system. Your record books never have to leave the farm as do the mail in computer systems. However, analyzing your total farm or one enterprise does require many manual calculations with this system.

Record Books Available:
- Farm Records for Western Farmers - Saskatchewan Agriculture
- Prairie Farm Account Book - Saskatchewan Wheat Pool, Farm Service Centers

Both of these books have sections for income expenses, wages, credit accounts, inventories, net worth, income tax records, CCA schedule and business summary. The advantage of the Prairie Farm Account Book over the Farm Records for Western Farmers is that the PFAB has the capability to record and summarize more detailed production information.

ii) Ledger Systems
By buying a ledger book (available with up to 36 columns) from a stationery store you can set up your own account book. An advantage of developing your own account book is that you can use your own headings so you eliminate all the headings that don't apply to your operation. You can use either a single entry or modified double entry system of accounting. (Both of these methods are discussed on the following pages.)

Example of Ledger Book



The sections you will require in your personalized accounting system are:

Expenses	Inventories	
Income	Net Worth	
Wages	Income Tax	- Statement of Income and Expenses
Credit Accounts		- Capital Cost Allowance schedules

You may want to include a section on physical records where you can keep track of things such as yields for each field, results of using different chemicals, results of different rates of fertilizer or different field operations during seeding.

5. Filing

The fourth and final step in handling the paper flow is setting up a good filing system to store documents once you have recorded them. A good filing system will prove itself to be worth the time and effort involved in developing and keeping it. After entering a document in the farm record book, place the document in a file representing the special category it falls into.

Generally it is easiest to use the same categories you use in your account book but you could also use months or places of business. If you are filing by sections in your account book, you will have a file for expenses, income, wages, bank etc.

As well, set up a file where you can store information under such headings as Correspondence, Crop Production, Livestock Production, Machinery Repair and other topics of interest.

An example of headings for a filing system would be:

Expenses	Income Tax
Income	Correspondence
Wages	Legal Documents
Bank	Insurance Contracts
Personal Expenses	Warranty Information
Non-Farm Income	Crop Production
	Livestock Production

Income Tax Considerations

This section does not give a detailed discussion of farm income tax. Saskatchewan Agriculture's publication "Income Tax for Farmers" is a detailed guide in income tax and if you do not have one, obtain a copy from your agricultural representative before completing your tax return.

This section deals with completing income and expense records for tax purposes.

To finalize your income and expense reports for income tax there are three steps:

1) Totalling the various categories and obtaining overall totals for income and expense
2) Adjusting for any tax credit
3) Calculating capital cost allowance.

1) Cash or Accrual Accounting

Individuals, corporations, partnerships and trusts in the business of farming may use either the "cash" method or the "accrual" method when doing accounting for income tax purposes.

Most farmers use the cash method because it provides the most flexibility for reporting income. You determine the most opportune time to receive income and pay expenses. The cash method also requires simpler farm records than the accrual method.

a) Cash Method - Income is reported in the year it is received and expenses are deducted only in the year in which they are paid. For example, if you charge your 1986 fertilizer purchase and pay for it in 1987, it is an expense for the 1987 taxation year.

b) Accrual Method - You report income in the year you earn it, regardless of when you receive payment. You deduct expenses in the year in which they are incurred, whether you paid them that year or not. You adjust income by including changes in the values of livestock, grain, feed, fertilizer and other farm inventories. See page 30 for the method used to calculate accrual Income. You must file a balance sheet with your income tax return.

2) Calendar or Fiscal Year Reporting

Some farm businesses may find it useful to report income according to a chosen fiscal year (eg July 1 to June 30) rather than on a calendar year basis (January 1 to December 31). If you receive a large portion of your annual income in one part of the year, beginning the fiscal year just prior to the receipt of that income may delay the payment of income tax longer. Revenue Canada must grant permission before you can make a change in a fiscal year. However, if you are a beginning farmer, you may start out using any fiscal year.

3) Statement of Farming Income and Expenses

Revenue Canada requires that you file a statement of Farming Income and Expenses with your Income Tax Return. When recording items in each section of the account book, keep all items of similar type either income or expense together. This will enable you, at the end of the accounting period, to obtain a total for each expense item such as feed, fuel, machinery repairs as well as a total for each income item wheat sales, barley sales, cattle sales. Each year a blank income and expense statement is included in the Farmers Income Tax Guide. You do not have to use the form Revenue Canada provides but study their blank form for an idea of how to set up your own. Keep in mind that the more breakdown you provide in your income and expenses, the less chance there is of Revenue Canada requesting more information regarding your return.

Single Entry System of Accounting for Income and Expenses

You may use either the single entry or modified double entry system to account for income and expenses, not both. The modified double entry system is explained in the next section. Study both sections and then choose one. The rest of the account book is not affected by the method used to enter income and expenses.

1. Definition

Single entry accounting is a system where only income and expense columns are used in the accounting process. There is no indication of whether cash or cheque was used to pay for an expense. In the case of an income item there is no indication of whether money was received as cash or deposited in the bank.

The single entry system described here has a total value column which provides a check against errors when several different items are purchased in the same transaction. It ensures that the total value of all purchases is allocated to one or more expense columns. Where a transaction involves the purchase of only one type of expense, the same dollar amount will be entered twice but is still called a single entry system.

2. Advantages

The system is simple and easy to use since only the income and expense columns are used for accounting.

3. Disadvantages

There is no way of reconciling the bank records to other records to ensure that they are correct. You have to be especially careful to ensure that none of the entries are forgotten or recorded incorrectly.

4. Setting Up and Entering in the Expense Section

Since there are likely to be more expense entries than income entries, locate the expense section at the front of the account book.

How complex your farm is determines the number of columns required for expenses. First decide what headings you want to use in your account book, then buy a ledger book. In the first year, allow for additional headings in case you decide

to split one general area into two or set up a new heading. Ledger books with up to 36 columns are available from bookstores or office specialty stores.

Here are some suggested headings for the expense section:

General Area	Column Headings
	1 Date
	2 Description and Reference Numbers
	3 Total Value
Car Expenses	4 Gas and Oil
	5 Repairs, License and Insurance
Fuel Lubricants	6 Gasoline
	7 Diesel
	8 Grease and Oil
Equipment Expenses	9 Truck Repair
	10 Tractor Repair
	11 Combine Repair
	12 Other Equipment Repair
	13 Small Tools and Hardware
	14 Custom Work and Machinery Rental
Crop Expenses	15 Seed
	16 Fertilizer
	17 Chemicals
	18 Crop and Hail Insurance
Overhead	19 Telephone, Power, Farm Heating Fuel
	20 Interest
	21 Taxes, Ins., Cash, Rent, Accounting, Legal Fees
	22 Business supplies, Other
	23 House Repairs and Heating Fuel
Building and Improvements	24 Farm Building and Fence Repairs
	25 Clearing, Breaking, Draining
Livestock Expenses ( )	26 Vet and Medicine
	27 Salt, Feed, Supplements
	28 Livestock Supplies
	29 Livestock Purchased
	30 Breeding Fees, Pasture Rental, Other

You may need all of the headings listed or only some of them. If you have two livestock enterprises, you will want to repeat columns 26 to 30 for the second livestock enterprise.

Figure 5, on page 16 is an example of the single entry expense section. Because of limited space, some of the columns have been combined.

The first column after the date and description should be labelled total value. This column provides a check to ensure that the total amount of the expense is allocated to one or more expense columns. Where the expense relates to only one expense column as in line 1 of figure 5, the total amount of $1,360.00 entered in the total value column is the same as the entry in the fertilizer and chemicals column.

Continue to label the columns with the headings you have chosen until you have labelled the columns on the left side of the first expense page. You can now estimate how many expense pages you will need. As a minimum, allow one double page for each month plus two extra double pages for overflow and one double page for the annual expense summary. Continue labelling on the right side of the last expense page (the summary page), cut the tops of all the pages in between so you can see the labels from each page. This procedure eliminates the need to label each page. You are now ready to enter your expenses starting a new double page for each month.

When entering expenses be sure to record the date of the transaction, the person or business you bought the item or service from, the invoice number and a brief description. If you don't enter a description, it may be difficult to trace a particular item in the future. Leave one line at the bottom of each page for totaling columns.

At the end of each month or when each page is completed, total each vertical column including the total value column. When you total across the bottom of the page, all the totals except the total value total, the grand total should equal the total value total (ie $2,349.00). If they are not equal, you have either made an adding mistake or you have not allocated the total value of an invoice correctly to one or more columns. Enter the totals in pencil so you can change the total if an invoice turns up later that should have been entered in that month. At the end of the year, transfer the totals from each month to the summary page. Use one line for each month. If in one month you have more than one page, use one line for each page. When you have transferred all the months to the summary page, total each vertical column including the total value column. Total across the bottom of the page all the totals except the total value total. This grand total should equal the total value total (ie $40,000.00). If the two are not equal you have either made a mistake in adding, or in transferring the page totals to the summary page.

5. Setting Up and Entering in the Income Section

The income section will normally be the second largest section in your account book so it should follow the expense section.

The complexity of your farm will again determine how many columns you need. Again, choose your column headings before you buy a ledger book.

Suggested headings for the income section are:

General Areas	Column Headings
	1 Date
	2 Description and Reference Numbers
	3 Total Value
Crop Sales	4 Wheat - quantity
	5 - value
	6 - quantity
	7 - value
	8 - quantity
	9 - value
	10 - quantity
	11 - value
Other Crop Income	12 Wheat Board Payments
	13 Government Payments
	14 Insurance Proceeds Crops
	15 Machinery Rental and Custom Work
	16 Patronage Payments and Other
Livestock Income	17 number
	18 value
	19 number
	20 value
	22 Other Livestock Income

Use only the headings that suit your operation. When setting up the column headings for crop sales, consider the grain on hand as well as the current production. If you have two or more livestock enterprises, consider more columns for livestock sales.

Figure 6 on page 17 is an example of the single entry income section. Some of the columns have been lumped together.

The first column should be labelled total value. This column provides a check to ensure that the total amount of income is allocated to one or more income columns. Where the income relates to only one income column as in line 1, figure 6 then the total amount of $3000 is entered in the total value column and again in the wheat value column. Enter 20.000 tonnes in the wheat quantity column.

Continue to label the columns with your chosen headings until you have labelled all the columns on the left side of the first page. You should now decide how many double income pages you will need. Allow one double page for each month. If you want to enter more than one month's income per page, allot one-half of the number of pages alloted for expenses plus one double page for the annual income summary. Continue labelling on the right side of the last income page (the summary page). Cut the tops off all the pages in between so you can see the labels from each page and eliminate the need to label each page. You are now ready to enter your income. When entering income be sure to record the date the income was received, the person or business from whom the income was received, the cheque number, and a brief description. If you don't enter a description it may be difficult to trace a particular item in the future. Leave one line at the bottom of each page for totaling columns.

At the end of each month, or when each page is completed, total each vertical column including the total value column. The column totals for quantities of grain and livestock sold should be shaded as in figure 6. Total across the bottom of the page all the totals except the shaded quantity totals and the total value total to get a grand total. The grand total should be the same as the total value total (ie $8,518). If they are not equal you have either made an adding mistake or you have not allocated the total value for an income item correctly to one or more columns.

At the end of the year, transfer the totals from each month to the summary page. Use one line for each month or each page. When all months or pages are transferred to the summary, total each vertical column including the total value column. Shade the column totals for quantities of grain and livestock sold as in Figure 6. Total across the bottom of the page all totals except the shaded quantity totals and the total value total to get a grand total. The grand total should be the same as the total value total (ie $80,000). If they are not equal, you have either made a mistake in adding or in transferring the page totals to the summary page.

6. Handling the More Difficult Entries

You will always have some transactions which are neither simple in form nor easy to record. If you are not sure how to make an entry, you can attempt to enter it and put a colored star beside the entry so you can identify it easily later. Another method is to write the details in the notes section

of your account book. At year end these transactions must be reviewed and dealt with for tax filing purposes. **When problem situations occur, deal with them as completely as possible at the time, and if questions remain, then note the circumstances for future reference.**

a) Patronage Dividends
The total amount of the patronage dividend declared during the year is taxable. When entering the patronage dividend in the income section, the total amount of the dividend must be entered under the suitable heading. In the accounts section, set up an accounts receivable to keep track of the amount of dividends not yet received. File the statement indicating tax withheld in the income tax file.

b) Canadian Wheat Board Cash Advance
As of January 1, 1985 The Canadian Wheat Board Cash Advance is considered as a loan for tax purposes. Prior to January 1, 1985 it was considered income when received. When you sell grain and the advance is deducted from the grain cheque for repayment, enter as income the gross amount of the grain cheque before the amount deducted to repay the cash advance as a loan payment.

c) Multiple Transactions on One Grain Ticket
There are two methods of recording cash tickets where deductions are made from the ticket.

(i) Enter only the net amount of the cash ticket in the income section. This is the most commonly used method.

(ii) Enter the gross amount as grain income, in the income section and the deductions as expenses in the expense section.

d) Land Rental
Crop share rental payments are not recorded as expenses unless the landlord's share of the crop is recorded as income.

Cash rental payments are included as an expense. Record cash rental of cultivated land as a crop expense. Enter pasture rental fees as a livestock expense.

e) Land Clearing
Enter amounts paid during the year for clearing, breaking, or drainage for the purpose of farming in the buildings and improvements area of the expense section.

f) Water Wells
You may claim the cost of drilling water wells as an expense in the year paid. Enter the cost of the casing, cribwork, pump and distribution system as a capital purchase.

g) Rebates of an Expense
Rebates of an expense such as gasoline tax rebates must be included in income. Where a government agency makes a grant for the purpose of increasing your income or reducing your expense, you may either add that amount to your income or deduct it from specific expenses.

h) Small Tools
Tools purchased for more than $200 should be entered in class 8 as a capital purchase. Deduct the investment tax credit on new tools over $200.

Tools you buy for less than $200 can either be entered as an expense in the small tools column, or entered in class 12 if you want to carry the expense forward to another year.

i) Deferred Cash Tickets
Cash Tickets for grain are income on the date they are issued unless they are deferred into the next taxation year by the elevator agent. If you defer a cash ticket to January 1, 19X1, then it becomes income when it can be cashed January 1, 19X1.

Modified Double Entry Accounting for Income and Expenses

1) Definition

Double entry accounting shows both effects of every transaction: where the money comes from (cash or bank) and where it goes to (cash or bank). In double entry accounting, equal debit and credit entries are made for every transaction. If only two accounts are affected, as in the purchase of fuel for cash, the cash account is decreased and the fuel account is increased. If more than two accounts are affected by a transaction, as in the purchase of a truck repair and tractor repair by cheque, then the bank account is decreased and the truck repair and tractor repair accounts are increased. For each transaction the sum of the increases must equal the sum of all decreases.

The system described is a modified double entry system. In this system we have one section called "money inflow" and one section called "money outflow". The system accounts for all money that flows through the bank account so we must have additional columns to explain every outflow and inflow of money. The expense items will be entered in the money outflow section. For ex-

penses we show where the money comes from whether a bank withdrawal (cheque) or cash, and what was purchased (ie fertilizer, figure 7). The income items will be entered in the money inflow section. In the case of an income item we show what we did with the money received, whether bank deposit or cash and where the money came from (ie sale of hogs, figure 8).

You can use either the single or modified double entry systems to account for income and expenses, but not both. The single entry system is described in the last section. Study both methods before you decide which to use. The rest of the account book will not be affected by the method used to enter income and expenses.

2) Advantages

Income or expense items that have been run through the bank cannot be left out of the records.

Double entry makes it possible to trace and correct errors.

3) Disadvantages

This system may require more time than single entry.

4) Setting Up and Entering in the Outflow Section

Since there are likely to be more outflow entries than inflow entries, locate the money outflow section at the front of the account book.

The number of columns you need depends on how complex your farm is. Buy a ledger book only after you have decided on your money outflow and money inflow column headings. In the first year, allow additional headings in case you decide to split one general area into two or create a new heading. Ledger books with up to 36 columns are available from bookstores or office specialty stores.

Suggested headings for the outflow section are:

General Area	Column Headings
	1 Date
	2 Description and Reference Nos.
Source of Payment	3 Bank Withdrawal
	4 Cash Paid
Car Expenses	5 Gas, Oil, Grease
	6 Repairs, License, Insurance
Fuel and Lubricants	7 Gasoline
	8 Diesel
	9 Grease and Oil
Machinery and Equipment Expenses	10 Truck Repair
	11 Tractor Repair
	12 Combine
	13 Other Equipment Repair
	14 Small Tools and Hardware
	15 Custom Work and Machinery Rent
Crop Expenses	16 Seed
	17 Fertilizer and Chemicals
	18 Crop and Hail Insurance
Overhead	19 Phone, Power, Farm Heating Fuel
	20 Interest Paid
	21 Taxes, Insurance, Cash Rent
	22 Accounting, Legal Fees, Business Supplies and Other
Bldg. and Improvements	23 House Repairs and Heating Fuel
	24 Farm Building and Fence Repair
	25 Clearing, Breaking, Draining
Livestock Enterprise	26 Vet and Medicine
	27 Salt, Feed, Supplements
	28 Livestock Supplies
	29 Livestock Purchased
	30 Breeding Fees, Pasture Rent
	31 Wages
	32 Principal Repaid
	33 Capital Purchase
	34 Personal
	35 Other

Select only the headings that are useful to you. If you have two livestock operations, repeat columns 26 to 30 for the second livestock enterprise.

Figure 7 is an example of the modified double entry money outflow section. Some of the columns have been lumped together in this example but you may separate them in your own ledger.

The first two columns show the source of the money with which the outflow was paid. This is the basis of the double entry system for each purchase you must show whether payment was made with cash or cheque.

Label the first column bank withdrawal. Enter all outflows that are paid either by cheque or by

transfer from the bank account in this column.

The second column should be labelled cash paid. All outflows which were not paid by cheque or transfer must have been paid by cash.

Continue to label the columns with the headings of your choice until you have labelled all the columns on the left side of the first outflow page. To estimate how many money outflow pages are needed, allow one double page for each month plus two extra double pages for overflow and one double page for the annual outflow summary. Continue labelling on the right side of the last outflow page (the summary page). Cut the tops off all the pages in between so you can see the labels from each page and do not have to label each page. You are now ready to enter your outflow starting a new double page for each month.

When entering outflow be sure to record the date of the transaction, the person or business you paid the money to, the invoice number and a brief description. If you don't enter a description it may be difficult to trace a particular item in the future. Leave two lines at the bottom of each page for totaling columns.

At the end of each month or when each page is completed, total each vertical column. Add the bank withdrawal and cash paid totals to get a grand total. Add across the bottom of the page totaling all other columns to get a second grand total. The two grand totals must be equal (ie $32,349). If they are not equal, you have either made an adding mistake or you have not allocated the total amount of a cheque or cash paid to one or more outflow columns. At the end of the year the totals from each month can be transferred to the summary page. Use one line for each month or each page. When all the months or pages are transferred to the summary total each vertical column. Add the bank withdrawal and cash paid column totals to get a grand total. Add across the bottom of the page all other column totals to get a second grand total. The two grand totals must be equal (ie $100,000). If the grand totals are not equal, look for an error in transferring page totals to the summary or an adding error.

5) Setting Up and Entering in the Inflow Section

The inflow section will normally be the second largest section in your account book so it should follow the outflow section.

The complexity of your farm will determine the number of columns required. Develop your list of column headings before you buy a ledger book.

The following are suggested headings for the money inflow section:

General Areas	Column Headings
	1 Date
	2 Description and Ref. Nos.
Destination of Income	3 Bank Deposit
	4 Cash Received
Crop Sales	5 Wheat - quantity
	6 - value
	7 - quantity
	8 - value
	9 - quantity
	10 - value
	11 - quantity
	12 - value
Other Crop Income	13 Wheat Board Payments
	14 Government Payments
	15 Stabilization Payment Received
	16 Stabilization Levy Paid*
	17 Insurance Proceeds Crops
	18 Machinery Custom Work and Rental
	19 Patronage Payments and Other
Livestock Income	20 - number
	21 - value
	22 - number
	23 - value
	24 Other Livestock Income
	25 Principal Borrowed
	26 Employment Income
	27 Capital Sales
	28 Equity Accounts Receivable*
	29 Income Tax Paid*
	30 Other Employment Deductions*
	31 Other

* these are negative columns and must be subtracted when checking column totals

Use as many headings as you need. When setting up the column headings for crop sales, consider the grain on hand as well as the current year's production. If you have two or more livestock enterprises, you may require more columns for livestock sales.

Figure 8 is an example of the modified double entry money inflow section. (Some of the columns have been lumped together).

The first two columns show the destination of any inflows of money. The basis of the double entry system is that for each inflow you must show where the money came from and where it went to, whether cash or bank deposit.

Label the first column bank deposit. All income that is deposited into or transferred to the bank account is entered under this heading.

Label the second column cash received. All inflow which is not deposited must be in the form of cash.

Continue to label the columns with headings of your choice until you have labelled all the columns on the left side of the first inflow page. To decide how many inflow pages will be required as a minimum allow one double page for each month plus two double pages for overflow and one double page for the outflow summary.

Continue labelling on the right side of the last inflow (summary) page. Cut the tops off all the pages in between so you can see the labels from each page. You are now ready to enter your inflow starting a new double page for each month.

When entering inflows be sure to record the date of the transaction, the person or business you received the money from, the invoice number,and a brief description. If you don't enter a description it may be difficult to trace a particular item in the future. Leave two lines at the bottom of the page for totalling columns. At the end of each month or when a page is completed, total each vertical column. The column totals for quantities of grain and livestock should be shaded as in figure 8. Add the bank deposit and cash received totals to get a grand total. Add across the bottom of the page totalling all other columns except the shaded quantity totals and subtracting negative columns to get a second grand total. The two grand totals must be equal (ie $27,808). If they are not equal you have either made an adding mistake or you have not allocated the total amount of one inflow to one or more inflow columns.

Check the Accuracy of Your Records

At the end of each month check your account book with the bank statement in the following way:

Figure 8a on page 20 can be used as a worksheet to reconcile your records to your bank statement. Start by bringing forward last month's true balance figure. From the outflow section bring forward the total bank withdrawals. From the inflow section bring forward the total bank deposits. Subtract the total bank withdrawals from the previous month's true balance, then add the total bank deposits to obtain a calculated bank balance. Next, adjust this figure by the withdrawals and deposits shown on the bank statement that weren't recorded in your records. This gives you a 'true balance' as far as your records are concerned.

The second step in reconciling to your bank statement is to adjust the ending balance on your bank statement by the cheques and deposits that are recorded in your books but not shown on the bank statement. This calculated figure represents the true balance and should agree with the true balance calculated from your records. If there is a discrepancy between these figures, items have been missed or recorded incorrectly and should be investigated further.

Year End Summary

At the end of the year, transfer the totals from each month to the summary page. Use one line for each month or each page. When all the months or pages are transferred to the summary, total each vertical column. Shade the column totals for quantities of grain and livestock as in figure 8. Add the bank deposit and cash received totals to get a grand total. Add across the bottom of the page totalling all other columns except the shaded quantity totals and subtracting negative columns to get a second grand total. The two grand totals should be equal (ie $120,000). If they are not equal, look for a mistake in adding or in transferring the page totals to the summary page.

6) Handling the More Difficult Entries

There will always be some transactions which are difficult to record. If you are not sure how to make an entry, attempt to enter it and put a colored star beside the entry so you can identify it later. Another method of dealing with problem entries is to write the details in the notes section of the account book and to review and deal with their problems at year end. When problem transactions occur, deal with them as completely as possible at the time and if questions remain, note the circumstances for future reference.

a) Patronage Dividends

The total amount of the partronage dividend declared during the year is taxable. In the inflow section under bank deposit enter the amount of the dividend received by cheque. In the patronage payments column enter the total amount of the patronage payment. In the income tax deducted at source column enter the income tax deducted. The patronage payment withheld is the total dividend minus the amount actually received minus the income tax withheld. Enter the patronage payment withheld in the "equity accounts receivable" column. The "equity accounts receivable" and "income tax deducted at source" columns are both negative columns and must be subtracted when checking column totals with bank and cash totals. A negative entry should be shown by placing brackets around the negative amount (eg ($20.00)).

b) Employment Income
When you receive employment income with income tax and other deductions, the following method can be used to keep track of total gross employment income, total tax deducted at source, and total other deductions. Enter the net income under "bank deposit" or "cash received". Enter gross income under "employment income". Enter income tax deducted under "income tax deducted at source" (a negative column). Enter all other deductions under "other employment deductions" (a negative column). An example is shown in figure 8.

c) Income Tax Deducted at Source
For inflow items which have income tax deducted such as employment income and patronage dividends, enter the amount of income tax deducted in this column. As indicated above, this is a negative column and the amount must be subtracted when checking column totals. (If you make an income tax installment enter this in the outflow section under income tax paid.)

d) Canadian Wheat Board Cash Advance
As of Jan. 1, 1985 the Canadian Wheat Board Cash Advance is considered as a loan for tax purposes. Prior to Jan. 1, 1985 it was considered income when received. When you sell grain and the advance repayment is deducted from the grain cheque, enter as income the gross amount of the grain cheque before the amount deducted to repay the cash advance.

e) Stabilization Levies
If you want to keep track of the amount of levies paid such as the Western Grain Stabilization Levy, the following method can be used. Line 1 of Figure 8 shows an inflow entry for $3,000 worth of wheat with $30 deducted for Western Grain Stabilization. Under bank deposit enter the net amount of the cheque. Under wheat quantity enter the number of tonnes sold. Under wheat value enter the gross value of wheat sold. Under stabilization paid enter ($30). Insert brackets around the $30 because the stabilization paid is a negative column and must be subtracted when checking column totals.

f) Capital Items Under Construction
At the back of the record book set up a section for capital items under construction. As you pay individual expenses, enter them in the outflow section under capital purchases and file the invoices with other outflows. Enter construction expenses again in this section at the back of the book to determine the total cost of the item under construction.

g) Purchasing an Asset With a Trade In
Consider a trade where there is some personal cash ($10,000) and money borrowed ($20,000) to purchase an asset ($55,000) with an accompanying trade in ($25,000). The cash and loan will be equal to the net cash difference between the new machine and the trade in. Set up a new account payable if the loan is new (Figure 10 page 21) or add the amount borrowed if it is an addition to an existing loan. When you receive the loan, enter it in the inflow section, principal borrowed column, and also in the bank deposit column (Figure 8, line 8). Show the purchase of the new asset in the outflow section by entering the cash difference between the old and new assets in the bank withdrawal and capital purchase columns (Figure 7). Accounting for the new and old assets in the capital cost allowance is discussed in the income tax section.

h) Other Difficult Entries
The following difficult entries were discussed in the single entry system and are handled in the same way, except that with the modified double entry, an entry must be made in the bank or cash column instead of total value. Refer to the single entry system for:

- Land rental
- Land clearing
- Water wells
- Rebates of an expense
- Small tools
- Deferred cash tickets

7) Filing System for Double Entry

(a) The modified double entry system has two main sections. Each entry is either an inflow or an outflow item. A Shannon file can be used to store the entered inflow and outflow items. As you enter each item in the record book, two-hole punch each voucher and file in the order of entering. Inflows and outflows can be separated using a cardboard divider.

(b) A bank file consisting of an envelope or manilla folder can be used to store cancelled cheques and bank statements.

(c) An income tax file consisting of an envelope or manilla folder should be set up. Place all vouchers for medical expenses and charitable donations (even if entered in the outflow section) in this file since you may require these items to send with your income tax return. Also include in this file any T4 slips, tax information slips, correspondence to do with your income tax return, and your income tax return.

At year end place the bank file, tax file and any other files in the Shannon file.

Figure 5
Expense Section Single Entry

					Fuel & Lubricants			Machinery & Equip Repair			Crop Expenses			Overhead Expenses				Building & Improvements			Beef Expenses	
Month	Day	Description	Total Value	Car Exp	Gas	Diesel	Grease & Oil	Equip. Repair	Small Tools & Hardware	Custom Work & Mach. Rental	Seed	Fert and Chem	Crop and Hail Ins.	Phone Power Farm Heating Fuel	Int.	Taxes Ins. Cash Rent	Acc Legal Business Supplies Other	House Repairs and Heating Fuel	Farm Bldg & Fence Repair	Clearing Breaking Draining Other	Live-stock Purch.	Other
May	10	Fred's Fertilizer #2531, 4t, 11-51-0	1360									1360										
May	15	General Store #7351 15/t #40 ch + 40 l Gas	40		20			20														
May	20	Sask Pool #35165 3 Pails Bucktnl M	489									489										
May	29	Ed's Esso #3417 1200L diesel	420			420																
May	30	General Store #8125 1 block salt and 28 L car gas	18	14																		
May	31	Sask Tel	22											22								4
		TOTAL MONTH OF MAY	2349	14	20	420		20				1549		22								4

Annual Expense Summary

January February March April																					
May	2349	14	20		420		20					1549		22							4
November December																					
TOTAL FOR YEAR	40000																				

Figure 6
Income Section Single Entry

				Crop Sales				Other Crop Income						Livestock Income Beef Enterprise						
														Beef	Cows	Beef	Calves	Beef	Feeders	
Month	Day	Description	Total Value	Wheat Quantity	Wheat Value	Barley Quantity	Barley Value	Wheat Board Pmts.	Govt. Pmts.	Patron Pmts.	Ins Proceeds Crops	Mach. Rent & Custom Work	Other	Number	Value	Number	Value	Number	Value	Other Livestock Income
May	3	United Grain Growers #35712 20T 3 red spring wheat	3000	20.000	3000															
May	5	Cargill #67215 7T 1 feed barley	770			7.000	770													
May	10	Wheat Board interim durum payment	1248					1248												
May	25	Livestock Auction Mart 2 cows 1 calf	1280											2	1000	1	280			
May	30	R. Brown custom seeding 100 acres	500									500								
May	30	T. White custom cattle hauling	20									20								
May	30	Co-op Dividend #6715	200							200										
May	30	UGG #38256 18T. 3 red spring wheat	1500	18.000	1500															
		TOTAL MONTH OF MAY	8518	[redacted]	4500	[redacted]	770	1248		200		520		[redacted]	1000	[redacted]	280	[redacted]		

Annual Income Summary

January																			
February																			
May	8518	38.000	4500	7.000	770	1248		200		520		2	1000	1	280				
November																			
December																			
TOTAL FOR YEAR	80000	[redacted]		[redacted]								[redacted]		[redacted]		[redacted]			

Figure 7
Outflow Section Modified Double Entry 19X1

			Source of Payment			Equipment Expenses					Crop Expenses		Overhead				Building and Improvements			Beef Expenses						
Month	Day	Description	Chec. Ref Number	Bank With-drawal	Cash Paid	Car Exp.	Gas Dsl Oil	Equip Rpr.	Small Tools and Hrdwr	Custom Work & Mach. Rental	Fert and Chem	Seed Crop & Hail Ins.	Phone Power Farm Heat	Int. Pd.	Taxes Ins. Cash Rent	Acct Legal Bus. Supp. Other	House Rprs. & Heat Fuel	Farm Bldg. & Fence Repair	Break Drain Other	Lvstck Purch	Other	Wages	Princ. Repaid	Cap. Purch Cash Differ-ence	Inc. Tax Paid	Pers. and Other
May	10	Fred's Fertilizer #2531 41 11-51-0	481	1360							1360															
May	15	General Store #7351 15ft #40 chain + 40 l gas			40		20	20																		
May	20	Sask Pool #35165 3 pails Bucktrl M	490	489							489															
May	29	Ed's Esso #3417 1200 l diesel	496	420			420																			
May	30	General Store #8125 1 block salt and 28 l car gas	499	18		14															4					
May	31	Sask Tel	500	22									22													
May	31	Mels Machinery #653 Purch new tractor	500	30000																				30000		
TOTAL MONTH OF MAY				32309	40	14	440	20			1849		22								4			30000		
GRAND TOTAL				32349		32349																				

Annual Outflow Summary

January February March																									
May		32309	40	14	440	20			1849		22									4			30000		
December																									
TOTAL FOR YEAR		99000	1000																						
GRAND TOTAL FOR YEAR		100000		100000																					

Figure 8
Inflow Section Modified Double Entry 19X1

Month	Day	Description	Bank Deposit	Cash Rec'd	Wheat Quant	Wheat Value	Barley Quant	Barley Value	Wheat Board Pmts	Stabilization Rec'd	Stabilization (Paid)	Mach Rent Custom Work	Patron Pmts & Other	Equity Rec-eivable	Livestock Sales No	Livestock Sales Value	Livestock Sales Other	Principal Borrowed	Employ Income	Capital Sales	Income Tax Deduct at Source	Other Empl Deduct.	Other
May	3	United Grain Growers #35712 207 3cw Wheat	2,970		20,000	3,000					(30)												
May	5	Cargill #67215 7 tonnes 1fd. Barley	770				7,000	770															
May	10	C.W.B. Interim durum payment #53261	1,248						1,248														
May	25	Livestock Auction Mart #98721	1,280												3	1,280							
May	30	R. Brown Custom Seeding 100 acres	500									500											
May	30	T. White Custom Cattle Hauling		20								20											
May	30	Co-op Dividend #62713	20										100	(60)							20		
May	30	Farmers Bank tractor loan	20,000															20,000					
May	30	Employment Income	1,000																1,250		(200)	(50)	
		TOTAL MONTH OF MAY	27,788	20	[redacted]	3,000	[redacted]	770	1,248		(30)	520	100	(60)	[redacted]	1,280		20,000	1,250		(220)	(50)	
		GRAND TOTAL	27,808		27,808																		

Annual Inflow Summary

January																						
February																						
May	27,788	20	20,000	3,000	7,000	770	1,248		(30)	520	100	(60)	3	1,280		20,000	1,250		(220)	(50)		
November																						
December																						
	TOTAL FOR YEAR	118,000	2,000	[redacted]		[redacted]								[redacted]								
	GRAND TOTAL	120,000		120,000																		

Figure 8a
Reconciliation Worksheet

WORKSHEET TO RECONCILE YOUR RECORDS TO YOUR BANK STATEMENT

AS PER YOUR RECORDS

MONTH	Previous Month True Balance	(−) Total Bank Withdrawals Recorded	(+) Total Bank Deposits Recorded	Calculated Bank Balance	Items Recorded by Bank But Not in Records		True Balance
					(−) Withdrawals	(+) Deposits	
JANUARY							
FEBRUARY							
MARCH							
APRIL							
MAY							
JUNE							
JULY							
AUGUST							
SEPTEMBER							
OCTOBER							
NOVEMBER							
DECEMBER							

AS PER BANK STATEMENT

Ending Balance on Bank Statement	Bank Transactions in Records But Not Recorded by Bank		True Balance
	(−) Outstanding Cheques	(+) Oustanding Deposits	

MUST BE EQUAL

Wage Records

The suggested headings for wage records are as follows:

Figure 9

Date	May 31
Name of Employee	Joe Blow
SIN No.	635 217 612
1. Gross Pay	1600.00
2. Income Tax	308.60
3. Canada Pension Plan (employee)	26.39
4. Unemployment Insurance (employee)	25.02
5. Non-cash Benefits (Board)	150.00
6. Net Pay 1-2-3-4-5	1089.99
7. Workers' Compensation	
8. Canada Pension Plan (employer)	26.39
9. Unempl Ins. (employer)	35.03
10. Total Labor Costs 1+7+8+9	1661.42
11. Cash Labor Outlay 10-5	1511.42

Accounts Payable and Receivable

Accounts payable are used to keep track of money you owe others. For example:

Figure 10

Loan Description	Date	Payments		New Loan	Balance Owing
		Int.	Princ.		
Farmers Bank 4640 Tractor	May 31			$20000	$20000
	Nov. 31	$1200	$5000		$15000

Figure 11:

Loan Description	Date	Payments		New Loan	Balance Owing
		Int.	Princ.		
Canadian Wheat Board Cash Advance	May 1			2000	2000
	May 30		2000		0

Accounts Receivable are used to keep track of money that others owe you. For example:

Figure 12:

Loan Description	Date	Payments		New Loan	Balance Receivable
		Int.	Princ.		
Co-op Patronage Dividend	Jan 1				400.00
	May 31			60.00	460.00

Capital Transactions

1. Construction Expenses

List all construction expenses for capital items on a separate page. Transfer the total for the completed capital item to the capital purchase section.

Figure 13:

Construction Expenses for Capital Items

Date	Bin Construction Description	Value	Date	House Renovation Description	Value
June 1	Westeel Rosco	$1,800	Jan 15	Lou's Lumber	$345
June 14	Rental of Bin Erection Pole	25	Jan 20	Lou's Lumber	55
June 15	8 yards cement	600	Jan 20	Total Cost	$400
June 17	Rental of Cement Forms	20			
June 17	Total Cost	$2,445			

2. Capital Purchases

Set up a section of the account book to keep track of capital purchases of land, buildings and machinery.

Figure 14:

	Date	Description	Total Value
Land	Feb. 20	Purchased Brown Quarter SE 8-20-15-2	$96,000
Buildings	Feb. 20	Barn on Brown Quarter	$ 4,000
	Feb. 20	2 Wooden Bins on Brown Quarter, 1300 bu. @	1,000
Machinery	May 31	JD 4640 Tractor Serial #93526	55,000

3. Capital Sales

Figure 15:

	Date	Description	Proceeds of Disposition	Expenses re: Disposition	Year Purch.	Orig. Cost	Value Dec. 31/71 (If applic.)
Land	Feb. 1	NE 27-20-14-2	$80,000	500	1965	10,000	16,000
Buildings	Feb. 1	2 Wood Bins	40		1968	400	
Machinery	May 31	JD 4430 Tractor Serial #23516	25,000		1973	14,000	

In addition to the proceeds of disposal (sale price or trade in value) keep additional information on capital sales for tax purposes. Expenses regarding disposition may be expenses such as advertising or legal fees. Any capital gain that occurs after December 31, 1971 is taxable, so the year of purchase, originnal cost and value December 31, 1971 columns provide this information.

Inventory and Net Worth

(1) Inventory

Take an inventory of all farm assets once a year. If you file your income tax on the calendar year basis (January 1 to December 31), December 31 would be a good date to take inventory. For each year you require a beginning and ending inventory but if done each year the ending inventory of one year is the beginning of the next year.

In taking an inventory, first list all the assets you own whether paid for or not. Set up a separate section for land, buildings and improvements, machinery and equipment, breeding livestock, market livestock grain and roughage, and farm supplies. Figures 16-22 give an example of how to set up each section. Value all assets for the beginning and end of the year. Make a list of all personal assets such as car (personal share usually 1/3), house (personal share usually 3/4) savings and investments, personal accounts receivable, life insurance cash value and household effects. Value the personal assets for the beginning and end of the year.

Figure 16:
Owned Land 19____

Legal Description	Cult. Area	Tax Assessment	Year Acquired	Purchase Cost	Value at Beginning of Year	Value at End of Year

Figure 17:
Buildings and Improvements 19____

Type	Year Manufactured	Year Acquired	Purchase Cost	Value at Beginning of Year	Value at End of Year

Figure 18:
Machinery and Equipment 19____

Type	Year Manufactured	Year Acquired	Purchase Cost	Value at Beginning of Year	Value at End of of Year

Figure 19:
Inventory of Livestock 19____

	Beginning of Year				End of Year			
Type of Livestock	Number	Weight	Price	Value	Number	Weight	Price	Value

Figure 20:
Inventory of Grain and Roughage 19____

Type of Grain or Roughage* (Operator's Share)	Beginning of Year			End of Year		
	Quantity	Price	Value	Quantity	Price	Value

* If you rent land on a crop share basis this method can also be used to keep track of the lessor's share by using a separate line for the lessor's share of each crop.

Figure 21:
Inventory of Farm Supplies 19____

Type of Farm Supplies	Beginning of Year			End of Year		
	Quantity	Price	Value	Quantity	Price	Value

Figure 22:
Livestock Checklist 19____

Enterprise	No. At Beginnning of year	No. Born	No. Purch.	No. To Account For	No. Sold	No. Died	No. at end of Year	No. Accounted For

(2) Net Worth

You are now ready to complete the net worth statement (figure 23). Transfer totals from your inventory to the net worth statement. The accounts section will provide information on accounts receivable and payable.

Figure 23:

Net Worth Statement

Assets			Liabilities		
Current Assets	**Value**		Current Debt(payment in 1 yr)		**Amount**
Cash on Hand			Operating Credit (limit)		
Bonds Stocks, Savings			Accrued Interest		
Accounts Receivable			Accounts Payable - Fuel		
Market Livestock			- Supplies		
Grain and Feed Inventory			- Other		
Supplies and Inv. in Crops			Total Intermediate Principal*		
Non Farm Business			Total Long Term Principal*		
Personal			Non Farm Principal*		
Other			Personal Principal*		
			Income Tax Current Year		
(A) Total Current Assets			Household		
			Other Payments*		
Intermediate Assets			(E) Total Current Debt		
Breeding Livestock					
Machinery and Equip.			**Intermediate Debt (2-10 Years)****		
Non-Farm Business			Breeding Livestock		
Personal			Machinery & Equipment		
Other			Non Farm Business		
			Personal		
(B) Total			Other		
			(F) Total Intermediate Debt		
Fixed Assets					
Farm Real Estate			**Fixed Debt (10 Years +)****		
Buildings			Farm		
Non Farm Real Estate			Non Farm		
Personal			Personal		
Other			Other		
(C) Total Fixed Assets			(G) Total Fixed Debt		
(D) Total Assets A+B+C			(H) Total Liabilities E+F+G		

Total Assets (D)	
- Total Liabilities (H)	
= Before Tax Net Worth	
- Deferred Tax Liability***	
= After Tax Net Worth	

* Principal payments due in one year or less plus any arrears
** Exclude current principal payments due in one year since listed as current debt
*** Deferred tax liability is the tax that would be payable for capital gain on land, recaptured capital cost allowance on machinery and buildings, and income tax on inventories if all assets were sold.

Income Tax

1. Capital Cost Allowance

The goal of a farm record system from an income tax point of view is to calculate net income from farming. To calculate this, you must calculate the capital cost allowance. Capital cost allowance is an expense which Revenue Canada allows you to use as a deduction in calculating net farm income.

There are two methods of computing capital cost allowance.

a) Part XI Diminishing Balance Method
All farm assets purchased after December 31, 1971 must be on the part XI method. Assets are grouped into classes and a percentage is taken of the balance in the class each year. The class and rates are listed on the last page of the Farmer's Income Tax Guide. You can use any rate from zero to the maximum rate in any year.

Example of Capital Cost Allowance Calculation

Purchase new tractor	$55,000
Investment tax credit (1987-71)	$ 3,850
Trade in tractor	$25,000
Beginning balance class 10	$70,000

List the new tractor under Class 10 in Part XI assets purchased. Deduct the tax credit from the purchase price to give an increase in class 10 items of $51,150. List the old tractor under Part XI assets sold as $20,000.00.

Depreciable assets purchased after November 12, 1981 will be subject to half of the applicable capital costs allowance in the year of purchase. Full capital cost allowance will be permitted in the years following the year of purchase. When a depreciable asset is purchased and a trade in is involved only the additional cost or the cash difference of the transaction will be subject to the half rate rule.

Since assets under the part XI method of capital cost allowance are grouped in classes the half rate rule can be handled by claiming the full capital cost allowance rate on the beginning balance in the class and the half rate on the increase in the class during the year.

The Part XI capital cost allowance schedule includes a method of handling the half rate rule.

Assets placed in Class 12 (small tools) are not subject to the half rate rule.

Figure 24

Part XI : Assets Purchased

Date	Class No.	Description	Net Cost
May	10	new 4640 tractor serial #93526 tax credit $3,850	$51150
		Total Added Class 10	51,150
June	12	new saw $100.	100
July	12	new drill $150.	150
July	12	Total Added Class 12	250

Part XI - Assets Sold

Date	Class No.	Description	Price Recvd	Origin* Cost
May	10	4430 tractor serial #23516	25000	14000

* Complete only if the price recieved is greater than the original cost of the asset. Normally Column 4 (next page) of the Capital Cost Allowance Schedule includes the sales or trade-in value. However, if the price received is greater than the original cost, only enter the original cost in Column 4. The balance will be a capital gain.

Figure 25
Capital Cost Allowance Schedule (Part XI Method)

(1) Class No.	(2) UCC* at Beginning of Year	(3) Investment Tax Credit Earned in Prior Years and Claimed This Year	(4) Col. (2) minus Col. (3) (2)-(3)	(5) Cost of Additions (Net Business Portion Only)	(6) Proceeds from Disposals (Business Portion Only)	(7) Undepreciated Capital Cost after Additions and Disposals (4)+(5)-(6)	(8) ((5)-(6)) x 1/2	(9) (7)-(8)	(10) Rate %	(11) CCA** for This Year (10)x(9)	(12) UCC at End of Year (7)-(11)
10	70,000		70,000	51,150	14,000	107,150	18,575	88,575	30	26,573	80,577
12	0			250		250		250	100	250	0

*UCC - Undepreciated Capital Cost
**CCA - Capital Cost Allowance

(b) Part XVII Straight Line

The straight line method of calculating capital cost allowance applies to most depreciable assets acquired before 1972. Assets are listed separately. A percentage is taken of the original cost of the asset each year. The rates are listed on the last page of the Farmer's Income Tax Guide. You can use any rate from 0 to the maximum rate in any year.

Use the following table with the part XVII method:

Figure 26
Capital Cost Allowance (Part XVII Method)

(Not Applicable For Assets Purchased After 1971)

Year Acquired	Description of Asset	Orig. Cost	Rate %	Allow. this Year	Total Allow. For this and Prior Years	Date Sold or Traded	If Sold, Price Received
68	Steel Bin	1000	5	50	750		

(2) Statement of Farming Income and Expense

Each year two blank income and expense forms are included in the Farmers Income Tax Guide (Example, figure 27). If you decide to use this form, complete them both, keep one with your records and send the other with your tax return. If you wish you may design your own form.

Figure 27 Statement of Farming Income and Expenses

Name _____ Address _____
For the Period _____ 19___ to_____ 19___

During this period did operation (a) begin? _____ (b) cease? _____ (tick if applicable)

A separate statement is required for each business. Include the total income and expenses of a partnership Refer to the Farmer's Income Tax Guide for an explanation of the various income and expense accounts

Total Cultivated Acreage _____

EXPENSES	$	INCOME	(Quantity)	$
Salaries and Wages Paid to Spouse*		Crops - Wheat		
Other Salaries and Wages		- Oats		
** or CPP Contribution for Employees,		- Barley		
Unemployment Insurance, Workers Compensation		- Rye		
Rent (Land, Buildings, Pasture)		- Flaxseed		
Interest on Real Estate Mortgage		- Rapeseed (Canola)		
Interest - Other		- Soybeans		
Property Taxes		- Corn		
Machinery and Truck Expenses:		- Apples		
- Gasoline, Diesel and Oil		- Other Fruits		
- Repairs, Licenses, Insurance		- Potatoes		
Automobile Expenses (Farm Share):		- Vegetables		
- Gasoline and Oil		- Tobacco		
- Repairs, Licenses, Insurance		- Sugar Beets		
Fertilizers		- Other Crops		
Chemicals		C.W.B. Payments - Wheat		
Seeds and Plants		- Oats		
Livestock Purchased - Cattle		- Barley		
- Swine		Western Grain Stabilization Payments		
- Poultry		Forage Crops (include forage seed)		
- Horses, Sheep, Other		Lvstk Sold	(number)	
Feed and Straw		- Beef		
Veterinary Fees, Medicine and Breeding Fees		- Swine		
Building Repairs		- Poultry		
Fence Repairs		- Horses, Sheep, Lambs		
Containers, Twine and Baling Wire		Other		
Small Tools and Other Miscellaneous Supplies		Eggs		
Insurance - Buildings, Crops, Livestock		Milk and Cream		
Accounting, Legal, Office, Advertising		Diary Subsidies		
Memberships, Subscriptions		Bees, Honey		
Telephone (Farm Share)		Maple Products		
Electricity (Farm Share)		Wood (include stumpage fees)		
Heating Fuel (Farm Share)		Custom, Contract Work, Machine Rental		
Custom and Contract Work and Machine Rental		Patronage Dividends		
Freight and Trucking		Gasoline Tax Rebates		
Clearing or Improving Land		Insurance Proceeds: Loss of Crops		
Other Expenses (specify) _____		Livestock Other		
Optional Value of Lvstk, end of previous year		Other Subsidies (specify		
Capital Cost Allowance (from schedule)		Other Farm Income (specify)		
Allowance on Eligible Capital Property Account		**Gross Farm Income**		
Total Farm Expenses		Optional Value of Lvstk, end this year		
		DEDUCT: Total Farm Expenses		
		Excess of Income over Expenses		

Excess of Income over Expenses (If partnership, enter only your share %) _____
Add: (a) your own salary or wages and interest on capital if included in expenses _____
(b) non-allowable expenses such as donations (deductible on page 2 of your return), if incl in exps _____
(c) cost of saleable products consumed _____
(d) personal or non-business portion of automobile or other expenses included above _____
Net Income from Farming (if a proprietorship, enter this amount on page 1 of your return) _____
Deduct: other allowable expenses not included in above statement but deductible from your share of partnership income _____
(Attach list specifying expenses if necessary)
Net Income from Farming _____

The accrual method of calculating Net Farm Income provides a better management indicator than Net Cash Income because it considers value of production rather than income and inputs used rather than inputs paid for. The accrual method adjusts cash income by any changes during the year in inventories, accounts receivable and payable, accrued interest and actual depreciation. The result is Net Farm Income.

Net Farm Income is the return to the operators management, operator & family labor, and owners equity.

To complete the following calculation Total Farm Cash Income and Total Farm Cash Expenses can be obtained from either your records or your income tax farm income and expense statement. Other information can be obtained from the beginning and ending Net Worth Statement.

Calculation of Net Farm Income: Accrual Method

TOTAL FARM CASH INCOME			(A) _____
Ending	Crops Inventory	+ _____	
Beginning	Crops Inventory	− _____	
Ending	Livestock Inventory	+ _____	
Beginning	Livestock Inventory	− _____	
Ending	Livestock Products Inventory	+ _____	
Beginning	Livestock Products Inventory	− _____	
Ending	Accounts Receivable	+ _____	
Beginning	Accounts Receivable	− _____	
Value of Produce Used in Home		+ _____	
TOTAL ADJUSTMENTS		(B) _____	
ADJUSTED FARM INCOME (A + B)			(C) _____
TOTAL FARM CASH EXPENSES			(D) _____
Ending	Supplies Inventory	− _____	
Beginning	Supplies Inventory	+ _____	
Ending	Accounts Payable	+ _____	
Beginning	Accounts Payable	− _____	
Ending	Outstanding Accrued Interest	+ _____	
Beginning	Outstanding Accrued Interest	− _____	
Depreciation		+ _____	
TOTAL ADJUSTMENTS		(E) _____	
ADJUSTED FARM EXPENSES (D + E)			(F) _____
NET FARM INCOME (C − F)			= _____
− Operator and family labour			= _____
= Return to owners' equity			= _____
% Return to owners' equity = $\frac{\text{Return to owners' equity}}{\text{Owners' Equity}} \times 100\%$			= _____

Notes

The last section of your book can be used to record those items that do not fit into the other sections. For example:

1. Identify those entries that you are unsure of, or do not know how to enter. These entries will have to be checked with an accountant, agricultural representative, farm management specialist, or Revenue Canada official before filing your income tax.

2. Draw a farm map to record what crops were grown in each field for crop rotation purposes.

3. Production records.

4. List your share of assets which are owned in partnership with other individuals.

5. Off farm income records.

6. Personal expense records.

7. Household expense records.